

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

December 31, 2013

**-HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

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Hiratsuka & Associates, L.L.P.

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Headwaters Metropolitan District
Town of Granby, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Headwaters Metropolitan District (the "District") as of and for the year ended December 31, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Headwaters Metropolitan District as of December 31, 2013 and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparison for the general fund and special revenue fund for the year then ended in conformity with U.S. generally accepted accounting principles.

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Report on Other Legal and Regulatory Requirements

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was presented for the purpose of additional analysis and was not a required part of the financial statements. The Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

April 30, 2014
Denver, Colorado

MANAGEMENT'S DISCUSSION AND ANALYSIS

Headwaters Metropolitan District

Management's Discussion and Analysis December 31, 2013

As management of Headwaters Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also includes additional supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily the construction, operation, and maintenance of the basic public infrastructure that is being performed on behalf of Granby Ranch Metropolitan District, Sol Vista Metropolitan District, and Granby Ranch Metropolitan Districts Nos. 2-8.

The District's government-wide financial statements can be found on pages 1 & 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has three governmental funds, the General Fund, the Capital Projects Fund, and a Lease Purchase Agreement Special Revenue Fund as well as one proprietary fund, the Enterprise Amenities Fund, which was closed out at year end.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to

the net position reported in the government-wide financial statements and a reconciliation of the net change in fund balance to the change in net position has been provided to facilitate the comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 11 through 18 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net position, revenues and expenses follows:

	Governmental Activities	
	2013	2012
Assets:		
Current assets	\$ 85,285	\$ 525,221
Non-current receivables	3,319,084	2,819,833
Capital assets	10,212,837	12,124,961
Total Assets	13,617,206	15,470,015
Liabilities and Deferred Inflows:		
Current liabilities & Def Inflows	833,539	1,113,038
Long-term debt	2,569,766	2,226,512
Total Liabilities	3,403,305	3,339,550
Net Position:		
Net Investment in capital assets	10,212,837	12,124,961
Restricted for emergencies	5,201	5,426
Unrestricted (deficit)	(4,137)	78
Total Net Position	\$ 10,213,901	\$ 12,130,465

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ -
Grants and contributions	1,235,567	1,373,723
General revenues:		
Interest	129	168
Total Revenues	1,235,696	1,373,891
Expenses:		
General government	542,414	81,643
Public works	522,984	501,439
Transportation	29,926	33,231
Intergovernmental agreement	5,752	69,952
Interest expense	169,597	107,632
Capital assets conveyed	1,881,587	-
Total Expenses	3,152,260	793,897
Other financing sources (uses):		
Transfers	-	5,504
Gain on Forgiveness of Debt	-	-
Loss on Discontinued Operations	-	-
Total Other Financing (Uses)	-	5,504
Change in Net Position	(1,916,564)	585,498
Net Position - Beginning	12,130,465	11,544,967
Net Position - Ending	\$ 10,213,901	\$ 12,130,465

The District is the "Service District" in a multiple district structure whereby the District constructs, maintains, and operates infrastructure on behalf of Granby Ranch Metropolitan District and Granby Ranch Metropolitan District Nos. 2-8, the "Financing Districts." The District entered into a District Facilities Construction and Service Agreement by which the District will receive a "capital obligation" from the financing districts in the future for the costs to construct infrastructure on behalf of the Districts, additional information can be found in Note 4 on pages 14 through 17. The District will also receive a "service obligation" from the financing districts for the costs incurred by the District to operate and maintain the facilities. A majority of the District's assets consist of the infrastructure constructed to date as well as the capital and service obligations due from the financing districts. The District is also responsible for the leasing of Ski Granby Ranch and Golf Granby Ranch located within the Granby Ranch community.

Government-wide Financial Analysis. For the Governmental Activities, the District's primary revenue sources were from cash received from developer contributions for general operations and increases in capital and service obligations due from the financing districts. The primary expenses of the District were operating expenses. Capital outlay during the year was largely funded through developer advances, which are reported as increases in long-term debt.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$42,369 which reflects an increase of \$12,127.

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 5 for the General Fund, Page 6 for the Special Revenue Fund and on page 20 for the Capital Projects Fund.

Capital assets. The District constructed or purchased a total of \$478,330 in capital assets. Additional information can be found in the Notes to the Financial Statements on page 12 of this report.

Long-term debts. The majority of the funding for infrastructure and other costs were funded by developer advances, which increases the long-term liability due to the developer. During the year, the governmental funds increased the amount of debt outstanding by \$346,221 which is from a developer advance of \$404,677 for capital improvements. Additional information can be found in the Notes to the Financial Statement starting on page 13 and 14 of this report.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT

Balance Sheet

Governmental Funds - Balance Sheet/Statement of Net Position

December 31, 2013

	Total Governmental Funds	Adjustments	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 15,900	-	\$ 15,900
Accounts receivable:			
Due from Granby Ranch Metropolitan District #2	5,148	-	5,148
Due from Silver Creek Master HOA	15,765	-	15,765
Due from Granby Ranch Conservancy, Inc.	5,536	-	5,536
Due from developer	22,568	-	22,568
Prepays	20,368	-	20,368
Obligations from financing Districts	-	3,319,084	3,319,084
Capital Assets, net	-	10,212,837	10,212,837
Total assets	\$ 85,285	\$ 13,531,921	\$ 13,617,206
Liabilities:			
Accounts payable	\$ 42,916	\$ -	\$ 42,916
Accrued interest payable	-	730,551	730,551
Long-term debt due within one year:			
Lease Payable	-	60,072	60,072
Long-term debt due in excess of one year:			
Lease Payable	-	70,060	70,060
Note payable to developer	-	2,499,706	2,499,706
Total liabilities	42,916	3,360,389	3,403,305
Fund balance:			
Nonspendable for prepaids	20,368	(20,368)	-
Restricted for emergencies	5,201	(5,201)	-
Assigned for capital projects and special revenue	2,064	(2,064)	-
Unassigned	14,736	(14,736)	-
Total fund balance	\$ 42,369	(42,369.00)	-
Net Position			
Net Investment in capital assets		10,212,837	10,212,837
Restricted for emergencies		5,201	5,201
Unrestricted		(4,137)	(4,137)
Total net position		\$ 10,213,901	\$ 10,213,901

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT

Governmental Funds - Statement of Revenues, Expenditures, and Changes in

Fund Balances/Statement of Activities

For the Year Ended December 31, 2013

	Total Governmental Funds	Adjustment	Statement of Activities
Revenues:			
Intergovernmental agreements			
Granby Ranch Metropolitan District No. 2	\$ 2,917	\$ -	\$ 2,917
Amenities rental fees	14,856	-	14,856
Interest income	129	-	129
Amenity fee	450,000	-	450,000
Operations contracts	97,482	-	97,482
Developer contributions	171,061	-	171,061
Intergovernmental contribution	-	499,251	499,251
Developer advances	404,677	(404,677)	-
Total revenues	<u>1,141,122</u>	<u>94,574</u>	<u>1,235,696</u>
Expenditures:			
Functions:			
General government	542,414	-	542,414
Public works	142,185	380,799	522,984
Transportation	34,958	(5,032)	29,926
Intergovernmental	5,752	-	5,752
Interest	-	169,597	169,597
Capital assets conveyed	-	1,881,587	1,881,587
Capital outlay	403,686	(403,686)	-
Total expenditures	<u>1,128,995</u>	<u>2,023,265</u>	<u>3,152,260</u>
Net change in fund balance	12,127	(1,928,691)	(1,916,564)
Fund balance, beginning of year	<u>30,242</u>	<u>12,100,223</u>	<u>12,130,465</u>
Fund balance, end of year	<u>\$ 42,369</u>	<u>\$ 10,171,532</u>	<u>\$ 10,213,901</u>

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
Balance Sheet
Governmental Funds
December 31, 2013

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 13,834	\$ 1,002	\$ 1,064	\$ 15,900
Accounts receivable:				
Due from Granby Ranch Metropolitan District #2	5,148	-	-	5,148
Due from Silver Creek Master HOA	15,765	-	-	15,765
Due from Granby Ranch Conservancy, Inc.	5,536	-	-	5,536
Due from developer	11,236	11,332	-	22,568
Prepays	20,368	-	-	20,368
Total assets	\$ 71,887	\$ 12,334	\$ 1,064	\$ 85,285
Liabilities:				
Accounts payable	\$ 31,582	\$ 11,334	\$ -	\$ 42,916
Total liabilities	31,582	11,334	-	42,916
Fund balance:				
Nonspendable for prepaids	20,368	-	-	20,368
Restricted for emergencies	5,201	-	-	5,201
Assigned for capital projects and special revenue	-	1,000	1,064	2,064
Unassigned	14,736	-	-	14,736
Total fund balance	\$ 40,305	\$ 1,000	\$ 1,064	\$ 42,369

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Revenues:				
Intergovernmental agreements				
Granby Ranch Metropolitan District No. 2	\$ 2,917	\$ -	\$ -	\$ 2,917
Amenities rental fees	14,856	-	-	14,856
Interest income	113	9	7	129
Amenity fees	-	-	450,000	450,000
Operations contracts	97,482	-	-	97,482
Total revenues	115,368	9	450,007	565,384
Expenditures:				
Functions:				
General government	87,967	-	454,447	542,414
Public works	142,185	-	-	142,185
Transportation	34,958	-	-	34,958
Intergovernmental	5,752	-	-	5,752
Capital outlay	-	403,686	-	403,686
Total expenditures	270,862	403,686	454,447	1,128,995
Excess of revenues over (under) expenditures	(155,494)	(403,677)	(4,440)	(563,611)
Other Financing Sources (Uses)				
Developer advances	-	404,677	-	404,677
Developer contributions	171,061	-	-	171,061
Total Other Financing Sources (Uses)	171,061	404,677	-	575,738
Net change in fund balance	15,567	1,000	(4,440)	12,127
Fund balance, beginning of year	24,738	-	5,504	30,242
Fund balance, end of year	\$ 40,305	\$ 1,000	\$ 1,064	\$ 42,369

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental agreement:				
Granby Ranch Metropolitan District No. 2	\$ 2,628	\$ 2,899	\$ 2,917	\$ 18
Amenities rental fees	-	14,856	14,856	-
Interest income	200	130	113	(17)
Operations contracts	98,599	97,918	97,482	(436)
Total Revenues	101,427	115,803	115,368	(435)
Expenditures:				
General government:				
Accounting and admin	50,000	50,000	32,672	17,328
Audit	12,000	12,000	11,282	718
Insurance	13,330	13,330	12,866	464
Legal	30,000	30,000	25,218	4,782
Other	500	500	1,829	(1,329)
Special projects	-	-	4,100	(4,100)
Public works:				
Facilities management fee	7,909	7,909	7,909	-
Mosquito control	9,000	9,000	9,000	-
Road maintenance and plowing	105,807	105,807	68,552	37,255
Equipment leases	52,381	52,381	54,216	(1,835)
Electricity	2,750	2,750	2,508	242
Transportation:				
Equipment leases	13,043	13,043	11,918	1,125
Operations	27,302	27,302	23,040	4,262
Intergovernmental	5,100	5,100	5,752	(652)
Capital outlay	-	-	-	-
Total Expenditures	329,122	329,122	270,862	58,260
	(227,695)	(213,319)	(155,494)	57,825
Other Financing Sources (Uses):				
Developer contributions	225,000	210,144	171,061	(39,083)
Total Other Financing Sources	225,000	210,144	171,061	(39,083)
Net Change in Fund Balance	(2,695)	(3,175)	15,567	18,742
Fund balance - beginning of year	30,552	24,738	24,738	-
Fund balance - end of year	\$ 27,857	\$ 21,563	\$ 40,305	\$ 18,742

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
Special Revenue Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Lease revenue -ski and golf	\$ --	\$ -	\$ -	\$ -
Amenity fee	--	450,000	450,000	-
Interest	--	10	7	(3)
Total Revenues	-	450,010	450,007	(3)
Expenditures:				
Ski and golf	--	-	-	-
Payroll and pesonnel	--	-	-	-
Other	--	-	-	-
Lease Purchase	--	454,500	454,447	53
Total Expenditures:	--	454,500	454,447	53
Excess of revenues over (under) expenditures	--	(4,490)	(4,440)	50
Fund balance - beginning of year	--	5,504	5,504	-
Fund balance - end of year	<u>\$ --</u>	<u>\$ 1,014</u>	<u>\$ 1,064</u>	<u>\$ 50</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

1. Summary of significant accounting policies

The accounting policies of the Headwaters Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting entity

The Headwaters Metropolitan District (the "District") was organized November 4, 2003 as a quasi-municipal corporation and a political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District No. 1 and was renamed Headwaters Metropolitan District effective October 23, 2004. The District was formed contemporaneously with SolVista Metropolitan District No. 2, which on October 23, 2004, became Granby Ranch Metropolitan District (GRMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within and around the Districts' boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the "Service District" while GRMD serves as the "Taxing District". Granby Ranch Metropolitan Districts 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note 4 for a detailed description of the Service Plan and other significant agreements.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Basis of Presentation

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District.

Both of the government-wide financial statements are designed to distinguish functions of the District that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through their user fees and charges (business-type activities).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

1. Summary of significant accounting policies (continued)

Measurement focus, basis of accounting and financial statement presentation (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due.

The District reports the following governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects Fund –accounts for the acquisition and construction of major capital facilities.

Special Revenue Fund – accounts for the activity relating to the leasing of and subsequent subletting of the land used for the operations of Golf Granby Ranch, Ski Granby Ranch, and other recreational amenities.

Assets, liabilities, and net position or equity

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Receivables

The District considered all receivables collectible as of December 31, 2013.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

1. **Summary of significant accounting policies (continued)**

Capital assets (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure – road, storm sewer, traffic and safety control	30
Improvements	15
Vehicles	10
Equipment	2-15

Capital and Service Obligations from Financing Districts

Granby Ranch Metropolitan District and Granby Ranch Metropolitan District No. 2 through No. 8 (the "Financing Districts") are obligated (see Note 4) to reimburse the District over time for the cost of the infrastructure constructed (capital obligation) as well as the operations and maintenance of such infrastructure (service obligation) by the District. These items represent the portions of the obligations that have not yet been paid by the Financing Districts to the District as of December 31, 2013.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

Intergovernmental revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

Fund equity

Beginning with the fiscal year ending December 31, 2010, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted and unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$5,201 of the General Fund balance has been restricted in compliance with this requirement.

The nonspendable fund balance in the General Fund in the amount of \$20,368 represents prepaid expenditures.

The assigned amount in the Capital Projects Fund is assigned for capital outlay purposes.

1. **Summary of significant accounting policies (continued)**

Fund Equity (continued)

The assigned amount in the Special Revenue Fund is assigned for leasing activities.

For clarification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first, when more than one classification is available.

Net position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Internal balances

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported in the funds as "internal balances."

Fair value of financial instruments

The District's financial instruments include cash and investments, accounts receivable, accounts payable and accrued expenses. The District estimates that the fair value of all financial instruments at December 31, 2013 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, compliance, and accountability

Budgetary information

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

In the fall of each year, the District Board of Directors prepares a proposed budget for the fiscal year commencing the following January 1. The budget for the funds includes proposed expenses and the means of financing them.

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

3. Detailed notes on the funds

Deposits and investments

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

As of December 31, 2013, all of the District deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments may include:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

As of December 31, 2013, the District invested in the Colorado Surplus Asset Fund Trust (C-Safe) local investment pool. As an investment pool, this fund operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by CRS 24-75-701. It operates similar to a money market mutual fund with a share value equal to \$1.00.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CSAFE held \$12,886 of the District's funds at December 31, 2013.

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

3. Detailed notes on the funds (continued)

Deposits and investments (continued)

The following is a summary of deposits and investments held by the District at December 31, 2013:

Type	Ratings	Fair Value
<i>Deposits:</i>		
Checking		\$ 3,014
<i>Investments:</i>		
CSAFE	AAAm	12,886
Total		\$ 15,900

Capital assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Conveyances/ Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 2,300,384	\$ 90,070	\$ (2,390,454)	\$ -
Total capital assets not being depreciated	2,300,384	90,070	(2,390,454)	-
Capital assets being depreciated:				
Infrastructure	11,273,676	822,483	-	12,096,159
Vehicles and equipment	447,343	-	-	447,343
Total capital assets being depreciated	11,721,019	822,483	-	12,543,502
Less accumulated depreciation for:				
Infrastructure	(1,748,327)	(389,489)	-	(2,137,816)
Vehicles and equipment	(148,115)	(44,734)	-	(192,849)
Total accumulated depreciation	(1,896,442)	(434,223)	-	(2,330,665)
Total capital assets being depreciated, net	9,824,577	388,259	-	10,212,837
Total Governmental activities capital assets, net	\$ 12,124,961	\$ 478,330	\$ (2,390,454)	\$ 10,212,837

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Public works, including infrastructure	\$ 429,029
Transportation	5,194
Total Governmental activities	\$ 434,223

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

3. Detailed notes on the funds (continued)

Long-term obligations

Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Due to Developer:					
Capital	\$ 2,095,029	\$ 404,677	\$ -	\$ 2,499,706	\$ -
Capital leases	188,588	-	(58,456)	130,132	60,072
Governmental activities long-term obligations	\$ 2,283,617	\$ 404,677	\$ (58,456)	\$ 2,629,838	\$ 60,072

Due to Developer – The District has an obligation to the District’s developer, Granby Realty Holdings LLC (“GRH”), for developer advances made to the District. In 2006, the District entered into a Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money for operating and maintenance expenses of the District. In 2006, the District entered into a Construction Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money not to exceed \$2,700,000 for capital costs. In January 2008, a new Construction Funding and Reimbursement Agreement was entered into which eliminated the maximum loan amount for capital costs. For both the operating and capital agreements, the funds shall be loaned to the District in one or a series of installments. The loan advances shall bear simple interest at a rate of 8% per annum from the date any advance is made to the date of repayment of such amount. In 2010, the District was able to convert \$11,119,000 of the outstanding principal and accrued interest balance to become General Obligation Bonds of Granby Ranch Metropolitan District, which were also issued to the Developer. As of December 31, 2013, accrued interest on the advances amounted to \$730,551 and the principal balance totaled \$2,499,706.

Capital leases

The District has entered into various lease agreements to finance the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles and equipment	\$ 318,541
Less: accumulated depreciation	(109,947)
Total	<u>\$ 240,448</u>

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

3. Detailed notes on the funds (continued)

Capital leases (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, are as follows:

<u>'Year ending, December 31,</u>	<u>Governmental Activities</u>
2014	\$ 64,041
2015	19,041
2016	19,040
2017	19,040
2018	19,040
Total minimum lease payments	140,202
Less: amount representing interest	(11,821)
Present value of minimum lease payments	<u>\$ 128,381</u>

Debt Authorization

In 2003 and 2004, a majority of the qualified electors of the District authorized the issuance of up to \$104,000,000 in general obligation bonds to finance the improvements. As of December 31, 2013, the amount of debt authorized by the District's electorate but unissued was \$104,000,000 for improvements.

4. Significant agreements

Service Plan - The service plan dated May 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the "taxing" district and Headwaters Metropolitan District (HMD) as the "service" district. Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development. GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development. On September 25, 2007, a consolidated service plan to create additional financing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was also approved by the Town of Granby in an effort to distribute the Financing Obligation over more area-specific districts.

Intergovernmental Agreement with the Town of Granby - On December 9, 2003, Granby Ranch and Headwaters Metropolitan Districts (acting jointly) entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the Districts. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement was further amended April 11, 2006 to outline the street maintenance and transportation mill levy. On February 26, 2008, the Intergovernmental Agreement between the Town of Granby and GRMD, HMD, and Granby Ranch Nos. 2-8 was executed. This IGA superseded and replaced the prior IGA and amendments in their entirety. The agreement states that all infrastructure and improvements will be designated

4. Significant agreements (continued)

Master Intergovernmental Agreements with the Town of Granby (continued)

and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town's standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained, and operated by HMD. The sanitary sewer and potable water systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance.

If the Town determines the Districts are not operating or maintaining any Street Improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the District.

The agreement limits the aggregate bonded debt amount to \$94,250,000 for the Districts. It also limits the maximum mill levy to 50.000 mills, adjusted for the change in the ratio of actual valuation to assessed valuation from 2003 to the current year.

Master Intergovernmental Agreements with Granby Ranch Metropolitan District – On June 1, 2006, the District entered into the District Facilities Construction and Service Agreement with HMD as the "Operating" district and GRMD as the "Taxing" district. This agreement terminated and replaced the Master Intergovernmental Agreement entered into by GRMD and HMD on December 10, 2003. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch. The districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities and the agreement basically provides that HMD will construct the public infrastructure in the Districts and that GRMD and the other taxing districts will ultimately pay the cost of constructing those improvements.

Certain improvements such as water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements such as roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. The cost of operation and maintenance of the improvements owned by HMD will ultimately be paid by the taxing districts in Granby Ranch. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

The consolidated service plan for the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was approved by the Town of Granby on September 25, 2007. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into. It superseded and replaced the prior agreement in its entirety. This new agreement included the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8). However, the District entered into an Exclusion Agreement with GRMD as of April 21, 2010 to document how GRMD would exclude property from its boundaries and provide for future maintenance and operations of the community. The agreement sets forth a number of items, including the understanding that upon the issuance of the Series 2010 Bonds, GRMD will have fulfilled all current reimbursement obligations to Headwaters Metropolitan District (HMD).

4. Significant agreements (continued)

Master Intergovernmental Agreements with Granby Ranch Metropolitan District (continued)

In accordance with the Operations Fee Resolution, GRMD will impose an Operations Fee in the event of a deficiency in the Improvement Operations Budget and Cure Amounts, as defined in the agreement.

The agreement also states the 2008 Master IGA will be repudiated and therefore HMD and GRMD will revert to the terms of the 2006 Master IGA with HMD, except the 2006 Master IGA will become subject to annual budgeting and appropriation and can be terminated for the ensuing year. HMD will continue to provide all general administrative services, operation and maintenance services, and facilities for GRMD. GRMD will impose property taxes or fees, rates, tolls, or charges to fund the O&M costs which will allow HMD to provide, operate, and maintain the facilities.

The combined amounts due to HMD by the Granby Ranch Metropolitan Districts Nos. 2 through 8 (GRMD Nos. 2 through 8) are \$3,319,084 for capital and service costs. The amount owed to the District by the taxing districts has been recorded in the Statement of Net Position. During the year ended December 31, 2013, the District received service obligation payments from GRMD No. 2 totaling \$2,917.

Amenities Lease Purchase Agreement

On December 31, 2012, the District and District developer entered into the Second Amended and Restated Lease Purchase Agreement to amend, restate, and supersede the prior lease in its entirety. The District, as the Tenant, will continue to rent the premises from the District developer. The lease term shall be for one year and shall automatically renew for 49 additional one-year terms. The rental payments shall equal the proceeds of all Amenity Fees collected by the District. The District has the option to purchase the premise for the fee stated in the agreement. The fees received in 2013 totaled \$450,000

Leased Premises Management Agreement – On December 31, 2012, the District entered into an agreement with the Granby Ranch Amenities, LLC ("Manager") to have management services performed as specified in the agreement, including operating the amenities. The Manager shall receive the revenues generated by the amenities and shall pay the expenses of operating the amenities, including any shortfalls. The Manager shall be entitled to the profits generated by the excess of the revenues over expenses for operations of the amenities. The Manager shall pay the District annual rent of \$9,796 for the ski amenities and \$5,060 for the golf amenities on or before March 31 of each year. In 2013 the District received \$14,856. Beginning January 1, 2014, the rent shall adjust annually as set forth in the agreement.

The District conveyed to the Manager all of the equipment, fixtures, and furnishings for the day-to-day operations of the amenities and the Manager assumed all of the District's liabilities related to the amenities. Additionally, all of the amounts owed to Granby Realty by the District under the Prior Management Agreement were cancelled and discharged.

5. Other information

Related parties

All the members of the Board of Directors of the District are employees or have substantial business interest with the developer.

5. Other information (continued)

Commitments and contingencies

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2013.

Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2013.

In addition, the District is named as insured along with the Developer as additionally insured on several of the Developer's policies including general liability, excess liability, crime and employment. The general liability coverage is in excess of \$20,000,000.

Tax, spending and debt limitations

Article X, Section 20, of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax, spending, and revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's "fiscal year spending" adjusted for allowable increases based upon inflation and local growth. "Fiscal year spending" is generally defined as expenditures plus reserve increase with certain exceptions. Revenue in excess of the "fiscal year spending" limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2013

6. Reconciliation of government-wide and fund financial statements

Explanation of differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Position

The Governmental Funds Balance Sheet and the government-wide Statement of Net Position includes a reconciling section. Explanation of the adjustments included in the reconciling section is as follows:

Capital assets of \$12,543,502 less accumulated depreciation of \$2,330,665 or a net book value of \$10,212,837 are not financial resources and therefore are not reported in the funds.

Other long-term assets are not available to pay current period expenditures, and therefore are not reported in the funds.

Obligation from financing districts	\$ 3,319,084
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest payable	\$ 730,551
Capital leases:	
Due within one year	60,072
Due in more than one year	70,060
'Notes payable to developer:	
Due in more than one year	2,499,706
Net adjustment	\$ 3,360,389

Explanation of differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (434,223)
Capital outlay	403,686
Assets Conveyed	(1,881,588)
	\$ (1,912,125)

Changes in capital and service obligations receivable from Granby Ranch Metropolitan Districts #'s 2-8 are only reported in the Statement of Activities because they do not generate currently available resources. This difference represents the net change in these receivable balances during the year.

Intergovernmental contribution	\$ 499,251
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Other Supplementary Information

HEADWATERS METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
Capital Projects Fund
For the Year ended December 31, 2013

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	\$ 10	\$ 9	\$ (1)
Total revenues	-	10	9	(1)
Expenditures:				
Capital outlay:				
Construction management fee	7,038	10,095	5,942	4,153
Construction projects	469,177	672,988	397,744	275,244
Total expenditures	476,215	683,083	403,686	279,397
Excess of revenues over (under) expenditures	(476,215)	(683,073)	(403,677)	279,396
Other Financing Sources:				
Developer advances	476,215	683,073	404,677	(278,396)
Total Other Financing Sources	476,215	683,073	404,677	(278,396)
Net Change in Fund Balance	-	-	1,000	1,000
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>